

AUBURN CITY BOARD OF EDUCATION

FINANCIAL STATEMENTS

SEPTEMBER 30, 2021

AUBURN CITY BOARD OF EDUCATION

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INDEPENDENT AUDITOR'S REPORT

To the Members of the Auburn
City Board of Education
Auburn, Alabama

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Auburn City Board of Education (the "Board"), a component unit of the City of Auburn, Alabama, as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Auburn City Board of Education as of September 30, 2021, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, pension information, and postemployment benefits other than pensions ("OPEB") information, on pages 3 through 13 and 50 through 55 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Auburn City Board of Education's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2022, on our consideration of the Auburn City Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Auburn City Board of Education's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Auburn City Board of Education's internal control over financial reporting and compliance.

Machen McChesney, LLP

Auburn, Alabama
March 11, 2022

AUBURN CITY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
SEPTEMBER 30, 2021

Introduction

The Management's Discussion and Analysis (MD&A) of the Auburn City Board of Education's (the "Board") financial performance provides an overview of the Board's financial activities for the fiscal year ended September 30, 2021. Please read it in conjunction with the Board's financial statements and notes to the financial statements, which immediately follow this analysis.

The MD&A is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights - Significant Items to Note

Our financial statements provide these insights into the results of this year's operations:

- The assets and deferred outflows of resources of the Board exceeded its liabilities and deferred inflows of resources at the close of the 2021 fiscal year by \$151.52 million (net position).
- The Board's total net position increased approximately 20.24 percent, or \$25.51 million, over the prior fiscal year. This is due primarily to the increase in capital assets from construction projects.
- The total cost of the Board's programs for the year was \$107.09 million. After taking away a portion of these costs paid for with charges or fees, federal and state grants, interest earnings and other miscellaneous sources, the net cost that required funding from Auburn City taxpayers was \$35.13 million. The state's Foundation Program provided \$44.83 million towards the cost of the programs.
- General Fund revenues during the year exceeded total expenditures by \$417,709.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$17.52 million, or 20.65 percent of the total General Fund expenditures, before other financing uses and special items.
- There were six major capital outlay projects in process during the fiscal year, five of which were still in progress at year-end. The locally funded Cary Woods Elementary School, J.F. Drake Middle School, and East Samford School Plan 2028 construction projects are scheduled for completion in 2022. The state funded Auburn Junior High School track and field improvement project is scheduled for completion in 2022. The local and state funded Woodland Pines Elementary School Plan 2028 construction project is scheduled for completion in 2022.

Using the Financial Statements - An Overview for the User

The financial section consists of five parts - the *independent auditors' report*, *management's discussion and analysis* (this section), the *basic financial statements*, *required supplementary information*, *supplementary information* and *additional information*.

The Board's basic financial statements are comprised of three components: 1) *government-wide financial statements*, 2) *fund financial statements*, and 3) *notes to the basic financial statements*.

Government-wide financial statements - The *government-wide financial statements* are designed to provide readers with a broad overview of the Board's finances as a whole instead of on an individual fund basis, in a manner similar to a private-sector business, indicating both long-term and short-term information about the Board's overall financial status. It is important to note that all of the activities of the Board reported in the *government-wide financial statements* are classified as governmental activities. These activities include, but are not limited to, student transportation, school food services, facility maintenance, local school public funds, interest and fiscal charges on long-term debt, and student instruction. *Government-wide financial statements* report the capitalization of capital assets and depreciation of all exhaustible capital assets and the outstanding balances of long-term debt and other obligations. These statements report all assets, deferred outflows of resources, liabilities, and deferred inflows of resources perpetuated by these activities using the accrual basis of accounting. The accrual basis takes into account all of the Board's current year revenues and expenses regardless of when received or paid. This approach moves the financial reporting method for governmental entities closer to the financial reporting methods used in the private sector. The following *government-wide financial statements* report on all of the governmental activities of the Board as a whole.

The *statement of net position* (on page 14) is most closely related to a balance sheet. It presents information on all of the Board's assets and deferred outflows of resources (what it owns) and liabilities and deferred inflows of resources (what it owes), with the difference between the two reported as net position. The net position reported in this statement represents the accumulation of changes in net position for the current fiscal year and all fiscal years in the past combined. Over time, the increases or decreases in net position reported in this statement may serve as a useful indicator of whether the financial position of the school board is improving or deteriorating.

The *statement of activities* (on page 16) is most closely related to an income statement. It presents information showing how the Board's net position changed during the current fiscal year only. All of the current year's revenues and expenses are accounted for in the *statement of activities* regardless of when cash is received or paid. This statement shows gross expenses and offsetting program revenues to arrive at net cost information for each major expense function or activity of the Board. By showing the change in net position for the year, the reader may be able to determine whether the Board's financial position has improved or deteriorated over the course of the current fiscal year. The change in net position may be financial or non-financial in nature. Non-financial factors which may have an impact on the Board's financial condition include: age and condition of facilities, mandated educational programs for which little or no funding is provided, and increases or decreases in funding from state and federal governments, to name a few.

Fund financial statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Board uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Board can be classified into two categories: governmental funds and fiduciary funds.

Governmental Funds - Governmental *fund financial statements* begin on page 17. These statements account for basically the same governmental activities reported in the *government-wide financial statements*. The *fund financial statements* presented herein display information on each of the Board's most important governmental funds or *major funds*. This is required in order to better assess the Board's accountability for significant governmental programs or certain dedicated revenue. The Board's *major funds* are the General Fund and the Capital Projects Fund.

The *fund financial statements* are measured on the modified-accrual basis of accounting, where revenues and expenditures are recorded when they become measurable and available. As a result, the *fund financial statements* focus more on the near-term use and availability of spendable resources. The information provided in these statements is useful in determining the Board's immediate financial needs. This is in contrast to the accrual-based *government-wide financial statements*, which focus more on overall long-term availability of spendable resources. The relationship between governmental activities reported in the *government-wide financial statements* and the governmental funds reported in the *fund financial statements* are reconciled on pages 18 and 20 of these financial statements. These reconciliations are useful to readers in understanding the long-term impact of the Board's short-term financing decisions.

Fiduciary Funds – Fiduciary funds are used to account for resources held by the Board but for the benefit of others and are not available to support the Board's own operations. Fiduciary funds are split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and custodial funds. The three types of trust funds are distinguished from custodial funds by the existence of a trust agreement or equivalent arrangement that has certain characteristics. The Board's trust funds are for the payment of scholarships for students. Custodial funds are used to report fiduciary activities that are not required to be reported in trust funds and consist primarily of student organization accounts. Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. The *statement of fiduciary net position* is used to report the assets, liabilities, and fiduciary net position. The *statement of changes in fiduciary net position* is used to report additions to and deductions from the Board's trust funds and custodial funds. Since fiduciary funds do not represent resources of the Board, they are excluded from the government-wide financial statements.

Notes to the Basic Financial Statements - The *notes to the basic financial statements* provide additional information that is essential for the statements to fairly represent the Board's financial position and its operations. The notes contain important information that is not part of the basic financial statements. However, the notes are an integral part of the statements, not an appendage to them. The *notes to the basic financial statements* begin on page 23.

After the presentation of the basic financial statements, additional supplementary information is required to be presented following the *notes to the basic financial statements*. The required supplementary information beginning on page 50 provides a comparison of the original adopted budget to the final amended budget of the Board's General Fund, which is then further compared to the actual operating results for the fiscal year. The comparison of this data allows users to assess management's ability to project and plan for its operations throughout the year. The required supplementary information also includes the following: two pension schedules and two other postemployment benefits other than pensions ("OPEB") schedules that provide more detailed information relating to the Board's net pension and OPEB liabilities as well as the Board's pension and OPEB contributions.

Analysis of the School Board's Overall Financial Position

As indicated earlier, net position may serve over time as a useful indicator of a government's financial position. Refer to *Table 1* on the next page when reading the following analysis of net position. The Board's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$151.52 million at September 30, 2021.

- ✓ Of this figure, \$225.95 million reflects the Board's investment in capital assets (e.g., land, buildings, improvements other than buildings, furniture and equipment, and transportation equipment), less accumulated depreciation and debt related to the acquisition of the assets. Since these capital assets are used in governmental activities, this portion of net position is not available for future spending or funding of operations.
- ✓ Restricted net position accounts for 3.02 percent, or \$4.58 million, of total net position. Restricted net position is reported separately to show the external legal constraints from debt covenants and enabling legislation that limit the Board's ability to use those resources for day-to-day operations.

- ✓ These balances are offset by negative unrestricted net position of \$79.01 million. This negative balance is due primarily to the impact of GASB Statement Nos. 68 and 75, which were implemented in fiscal years 2015 and 2018, respectively. GASB Statement No. 68 has a \$67.56 million negative impact on net position as of September 30, 2021, while GASB Statement No. 75 has a \$57.03 million negative impact on net position as of September 30, 2021. This negative impact is offset by the Board's positive unrestricted net position in its governmental funds, reflecting the Board's ability to meet ongoing and future financial obligations.

Table 1: Summary of Net Position

As of September 30, 2021 and 2020 (in millions)

	Governmental Activities	
	2021	2020
Current and other assets	\$ 74.21	\$ 62.14
Capital assets	226.03	207.71
Total assets	<u>300.24</u>	<u>269.85</u>
Deferred outflows of resources	<u>46.45</u>	<u>23.91</u>
Current and other liabilities	14.41	12.33
Long-term liabilities	136.70	105.78
Total liabilities	<u>151.11</u>	<u>118.11</u>
Deferred inflows of resources	<u>44.06</u>	<u>49.64</u>
Net Position:		
Net investment in capital assets	225.95	207.62
Restricted	4.58	4.28
Unrestricted	(79.01)	(85.89)
Total net position	<u>\$ 151.52</u>	<u>\$ 126.01</u>

The Board's increase in net position of \$25.51 million results primarily from an increase in capital assets. Net position invested in capital assets increased \$18.33 million, which is due to asset additions of \$25.92 million offset by depreciation expense, asset disposals and changes to related debt, which total \$7.59 million.

Unrestricted net position increased by \$6.88 million. Unrestricted net position has a negative balance due to the impact of GASB Statement Nos. 68 and 75. The Board's proportionate share of the collective net pension liability at September 30, 2021, is \$88.70 million. When combined with related deferred outflows and inflows of resources, the total impact on unrestricted net position is \$67.56 million. The Board's proportionate share of the collective net OPEB liability at September 30, 2021, is \$47.96 million. When combined with the related deferred outflows and inflows of resources, the total impact on unrestricted net position is \$57.03 million.

Restricted net position increased \$0.30 million, contributing to the overall increase in net position mentioned above.

The results of this fiscal year's operations as a whole are reported in detail in the *statement of activities* on page 16. *Table 2* on the following page condenses the results of operations for the fiscal year into a format where the reader can easily see the total revenues of the Board for the year. It also shows the impact the operations had on changes in net position as of September 30, 2021.

Table 2: Summary of Changes in Net Position from Operating Results

Fiscal Years Ended September 30, 2021 and 2020 (in millions)

	Governmental Activities	
	2021	2020
Revenues:		
<i>Program Revenues:</i>		
Charges for services	\$ 6.85	\$ 4.88
Operating grants and contributions	59.47	55.58
Capital grants and contributions	5.63	2.88
<i>General Revenues:</i>		
Local property taxes	20.85	14.82
Local sales tax	10.35	8.62
Alcohol beverage tax	0.67	0.64
Other taxes	0.06	0.06
Restricted appropriations	27.89	37.80
Investment earnings	0.08	0.35
Other	0.74	0.91
Total revenues	<u>132.59</u>	<u>126.54</u>
Expenses:		
Instruction	64.31	56.57
Instructional support services	19.72	18.91
Operation and maintenance services	8.71	8.44
Student transportation services	5.37	4.95
Food services	1.35	2.81
General administrative services	3.37	2.84
Other	4.24	2.04
Interest and fiscal charges	0.01	0.01
Total expenses	<u>107.08</u>	<u>96.57</u>
Increase in net position	25.51	29.97
Net position, beginning of year	<u>126.01</u>	<u>96.04</u>
Net position, end of year	<u>\$ 151.52</u>	<u>\$ 126.01</u>

The Board's net position increased \$25.51 million during the current fiscal year. This is mainly attributable to:

- ✓ A decrease of \$4.51 million in unrestricted net position due to the current year effects of GASB Statement No. 68.
- ✓ An increase of \$2.47 million in unrestricted net position due to the current year effects of GASB Statement No. 75.
- ✓ An increase in unrestricted net position of \$8.92 million, which represents an increase of \$1.04 million in the General Fund, an increase of \$7.79 million in the Capital Projects Fund, and an increase of \$0.09 million in the Other Governmental Funds.
- ✓ An increase in net position invested in capital assets of \$18.33 million, which resulted from asset additions offset by depreciation expense and changes to related debt.
- ✓ An increase in restricted net position of \$0.30 million.

Governmental Activities - As shown in *Table 2*, the cost of services rendered from the Board's governmental activities for the year ended September 30, 2021, was \$107.08 million. It is important to note that not all of these costs were borne by the taxpayers of the City of Auburn and Lee County:

- ✓ Some of the cost, \$6.85 million, was paid by users who benefited from services provided during the year, such as school lunches, after school programs, summer school and driver education instruction.
- ✓ State and federal governments subsidized certain programs with grants and contributions totaling \$59.48 million for operations and \$5.63 million for capital needs.
- ✓ Interest earned on the investment of School Board funds accounted for \$0.08 million in general revenues.
- ✓ Other general revenue sources, such as revenue in lieu of taxes, contributions from private sources, receipts from local trusts, the Alabama Medicaid Outreach Program, and other miscellaneous revenues provided for \$0.74 million in revenues.
- ✓ \$59.82 million of the Board's total costs was financed by district and state taxpayers, as follows: \$20.84 million in property taxes, \$27.90 million in City appropriations, \$10.35 million in sales tax, \$0.67 million in alcohol beverage tax, and \$0.06 million in other taxes (business privilege tax, helping-school vehicle tags, and manufactured home registration fees).

Table 3 is a condensed statement taken from the *statement of activities* on page 16 showing the total cost for providing identified services for seven major Board activities. Total cost of services is compared to the net cost of providing these services. The net cost of services is the remaining cost of services after subtracting grants and charges for services that the Board used to offset the program's total cost. In other words, the net cost shows the financial burden that was placed on all taxpayers for each of these activities. This information allows citizens to consider the cost of each program in comparison to the benefits they believe are provided.

Table 3: Net Cost of Governmental Activities

Fiscal Year Ended September 30, 2021 (in millions)

	Total Cost of Services	Net Cost of Services
Instructional services	\$ 64.31	\$ (17.11)
Instructional support services	19.72	(8.60)
Operation and maintenance services	8.71	(5.91)
Auxiliary services:		
Student transportation services	5.37	(0.53)
Food services	1.35	(0.20)
General administrative services	3.37	(2.92)
Other expenses	4.24	0.15
Interest and fiscal charges	0.01	(0.01)
Total	<u>\$ 107.08</u>	<u>\$ (35.13)</u>

Performance of School Board Funds

As noted earlier, the Board uses fund accounting to control and manage resources in order to ensure compliance with finance-related legal requirements. Using funds to account for resources for particular purposes helps the reader to determine whether the Board is being accountable for the resources provided by taxpayers and other entities, and it may also help to provide more insight into the Board's overall financial health. The following analysis of the Board's funds should be read in reference to the *fund financial statements*, which begin on page 17.

Governmental Funds - The focus of the Board's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Board's financial requirements. Note that the relationship between the *fund financial statements* and the *government-wide financial statements* is reconciled on pages 18 and 20. The strong financial performance of the Board as a whole is reflected in its governmental funds as well. At the end of the fiscal year, the Board's governmental funds reported combined ending fund balances of \$50.15 million.

- ✓ The General Fund has a restricted fund balance of \$1.59 million, an assigned fund balance of \$0.16 million, and an unassigned fund balance of \$17.51 million.
- ✓ The Capital Projects Fund has an assigned fund balance of \$23.92 million.
- ✓ The Other Governmental Funds have a nonspendable fund balance of \$0.16 million, a restricted fund balance of \$2.83 million, a committed fund balance of \$4.30 million, and a negative unassigned fund balance of \$0.32 million.

General Fund - The General Fund is the primary operating fund of the Board. The General Fund increased \$0.42 million due to positive current year operations.

Capital Projects Fund - The Capital Projects Fund is used to account for state and local financial resources paid for the acquisition or construction of major capital facilities. This fund includes the proceeds of long-term financing issued by the City of Auburn on behalf of the school system. These proceeds are recognized as an appropriation to the school system and are restricted for specific capital projects. The fund also includes proceeds from the state appropriated Public School Capital Outlay Funds. The Capital Projects Fund increased \$7.79 million during fiscal year 2021. This is due primarily to operating transfers from the General Fund.

Fiduciary Funds - The fiduciary fund financial statements appear on pages 21 and 22. Fiduciary funds are reported using the economic resources measurement focus and the accrual basis of accounting. Additions are recognized when earned, and deductions are recorded when a liability is incurred, regardless of the timing of related cash flows. At the end of the fiscal year, private purpose trusts and custodial funds net position was \$2.30 million and \$0.62 million, respectively.

General Fund Budgetary Highlights

Generally, on or before October 1 of each year, the Board is mandated by state law to prepare and submit to the State Superintendent of Education the annual budget adopted by the Board. The original 2021 fiscal year budget, adopted on September 8, 2020, was based on a conservative approach that reflected only guaranteed revenues and necessary expenditures.

The original budget figures were amended when revenue or expenditure fluctuations exceeded 10 percent. Over the course of the year, the Board revised the annual operating budget in February and June 2021. For purposes of this budgetary analysis, only the General Fund of the Board is discussed in accordance with the reporting model.

General Fund - The comparison of the General Fund original budget to the final amended budget is located on page 50. The differences between the original budget and the final amended budget of the Board were a \$6.24 million increase in overall revenue appropriations and a \$5.23 million increase in expenditures and can be briefly summarized as follows:

Amendment #1 was necessary to budget federal programs carryover, Board approved personnel changes, state PSCA bonds, new financing agreements, changes to operational budgets, and changes to State Department of Education and federal allocations. This amendment also revised the budgeted beginning fund balances to reflect the actual ending fund balances from fiscal year 2020.

Amendment #2 was necessary to revise State Department of Education allocations, federal allocations, Board approved personnel changes, local revenue projections, construction projects, and operational budgets.

Overall, the final amended budget is reflective of the actual operating activity for the year. Actual revenues were \$3.51 million more than budgetary estimates, and actual expenditures were \$4.61 million less than budgetary estimates, variances of 3.83 percent and 5.18 percent, respectively.

Capital Assets and Debt Administration

Capital Assets - The Board's investment in capital assets for its governmental activities for the year ended September 30, 2021, is \$225.95 million, net of accumulated depreciation and debt related to the acquisition of the assets. The Board's investment in capital assets includes land at estimated historical cost, buildings and improvements at estimated historical cost, equipment and furniture at estimated historical cost, equipment under capital lease, and construction in progress, and is shown in *Table 4* below.

Table 4: Capital Assets (net of accumulated depreciation)

Fiscal Years Ended September 30, 2021 and 2020 (in millions)

	<u>Governmental Activities</u>	
	<u>2021</u>	<u>2020</u>
Land and land improvements	\$ 21.10	\$ 15.71
Buildings and improvements	150.37	153.67
Furniture, equipment and vehicles	5.90	5.72
Construction in progress	48.66	32.61
Total	<u>\$ 226.03</u>	<u>\$ 207.71</u>

Net capital assets increased \$18.32 million for the 2021 fiscal year, due to asset additions offset by depreciation expense and asset disposals. Land and improvements additions amounted to \$5.56 million and consisted of the purchase of property on North Donahue Drive, parking lot improvements at Auburn High School, and parking lot cameras at Auburn High School. Building and improvements additions amounted to \$1.66 million and consisted of an elevator replacement at Central Office, construction of a new Transportation facility, and roofing projects at Auburn Junior High School and East Samford School. Additions to construction in progress of \$17.37 million relate to a construction project at Cary Woods Elementary School, a construction project at J.F. Drake Middle School, a construction project at East Samford School, construction of Woodland Pines Elementary School, a dental clinic construction project, a track & field improvement project at Auburn Junior High School, and access control projects at Auburn High School and Dean Road Elementary School. Other capital asset additions include an increase of \$1.33 million to furniture, equipment and vehicles, of which \$1.11 million was for the acquisition of eleven new school buses paid for with State Fleet Renewal funds and State Advancement and Technology funds. These asset additions are reduced by the current year's depreciation expense of \$5.85 million as well as asset dispositions net of related accumulated depreciation of \$1.75 million. Additional information on the Board's net position is presented in the notes to the financial statements.

Economic Factors and Next Year's Budget

The following are currently known economic factors for the City of Auburn that could impact the Board going into the 2021-2022 fiscal year:

- ✓ **Economic Conditions** - Revenues for the City of Auburn have continued to grow and compare well with historical growth rates. The City of Auburn's largest source of revenue, sales and use tax, improved more than expected indicating local economic growth. The City of Auburn, through its economic development, continues to attract new industry to the area.

The Auburn City Board of Education continues to be cautious with conservative spending and prudent allocation of resources, allowing the school system to maintain the appropriate reserves necessary to meet the challenges of uncertain economic conditions.

- ✓ **Population Growth** - The population in the City of Auburn as of the year 2020 census rose significantly since the last ten-year census taken in 2010. The population rose by approximately 22,763 people, or 42.64 percent over a ten-year period, for a total estimated population of 76,143.
- ✓ **Growth of Ad Valorem Taxes** - The Board of Education shares a 5 Mill countywide ad valorem tax with the other school systems in Lee County based on the 20th day average daily membership of each system. As the enrollment in Auburn City Schools grows, its share of this property tax increases. Further, the Board of Education is locally funded through a 3 Mill district ad valorem tax. As the assessed property valuations have increased and enrollment growth has impacted the district's proportionate share of the 5 mill tax, collections have historically exceeded five percent annual growth. In fiscal year 2021, ad valorem tax revenues increased \$0.76 million, or 5.1 percent, compared with the prior year.

The City of Auburn also collects 16 mills of ad valorem taxes designated for school operations and capital projects. Amounts transferred to the school district for current year operations are reported as a City of Auburn appropriation, with the remainder of collections being used for debt service on school construction projects.

- ✓ **Growth of Sales Taxes** - The Board of Education shares a one-cent countywide sales tax with the other school systems in Lee County based on the 20th day average daily membership of each system. As the enrollment in Auburn City Schools grows, its share of the sales tax continues to increase. Sales tax revenue increased \$1.72 million, or 16.66 percent, in fiscal year 2021.
- ✓ **City of Auburn Appropriations** - City officials approved increases in school district funding effective with fiscal year 2015. These increases include an increase to its General Fund appropriation. The basis of this appropriation changed from 13.00% of General Fund revenues with a floor of \$6,795,523 to 1.25 cents of sales tax with a floor of \$11.50 million. The City of Auburn sales tax appropriation for fiscal year 2021 increased by \$1.60 million, or 12.05 percent. The City of Auburn Appropriation related to sales tax is expected to decrease in fiscal year 2022 due to a "true-up" of \$0.66 million that was received in fiscal year 2021.

The City Council also voted to commit the City's 5 mill property tax fund to the school district for school construction, effective with fiscal year 2016. This appropriation increased by \$2.08 million, or 47.55 percent in fiscal year 2021. Other appropriations related to capital projects decreased by \$11.51 million in fiscal year 2021. This decrease is due to less funding required for construction projects in fiscal year 2021.

- ✓ **Housing** - The City of Auburn issued 761 building permits in fiscal year 2021 compared to 606 in fiscal year 2020. The housing market remains a consistent catalyst to economic growth.

Residential Building Permits Issued	Fiscal Years			
	2021	2020	2019	2018
Single family, detached	638	454	460	441
Single family, attached	123	152	79	69

- ✓ **State Funding** - Uncertainty exists in the area of state funding regarding the Education Trust Fund due to limited growth in revenue collections and increasing expenditures, primarily in the areas of retirement and health insurance. This uncertainty has caused the Board to budget for continued cautious spending for the 2022 fiscal year. During the 2010 legislative session, the Alabama State Legislature enacted the “Rolling Reserve Act”, designed to limit volatility in state funding.

At the time these financial statements were prepared and audited, the Board was aware of the following circumstances that could significantly affect the Board’s financial health in the future:

Student Enrollment - Average Daily Membership (ADM), as of the 20th day report in the 2021-2022 school year, of 9,245.30 indicates there will be an actual increase in enrollment of approximately 292 students for the 2022 fiscal year. The budget adopted by the Board in September 2021 took into account this expected increase. The five-year figures of growth based on the 20th Day ADM are indicated below.

<u>Fiscal Year</u>	<u>20th Day ADM</u>	<u>ADM Increase</u>
2022	9,245.30	291.75
2021	8,953.55	63.65
2020	8,889.90	173.80
2019	8,716.10	145.50
2018	8,570.60	69.00

The continued enrollment growth places pressures on building capacity of existing facilities. These growth trends correlate with increasing financial pressures moving forward in considering the funding of additional facilities.

Estimated Capital Needs - In May 2018, the Board of Education approved Facility Plan 2028, a 10-year plan addressing the demolition, reconstruction and renovation of buildings and the impact of student growth on facilities capacity. Phase I of this plan, which began in Fall 2018, includes the reconstruction and demolition of Cary Woods Elementary School, renovation and reconstruction of J. F. Drake Middle School, demolition and reconstruction of the gymnasium at East Samford School, construction of Woodland Pines Elementary School, construction of a second high school, and improvements to Auburn Junior High School.

Facility Plan 2028 includes \$222.12 million in estimated capital needs to complete the full implementation. These projects will be funded with local funds from the City of Auburn 5 mill Capital Fund and the 16 mill Special School Tax funds as well as State PSCA bond funds. The school district continues to monitor student enrollment as it relates to the timing of projects from the master plan.

Medical and Retirement Costs - Employee health insurance is provided through the Public Education Employees’ Health Insurance Program (PEEHIP). PEEHIP health insurance employer cost remained steady at \$800 per employee per month in fiscal year 2021. The employer contributions to the Teachers’ Retirement System (TRS) decreased from 12.43 percent in fiscal year 2020 to 12.36 percent in fiscal year 2021 for Tier I employees and decreased from 11.34 percent in fiscal year 2020 to 11.22 percent in fiscal year 2021 for Tier II employees.

CONTACTING THE SCHOOL BOARD'S FINANCIAL MANAGEMENT

This report is designated to provide citizens, taxpayers, investors, and creditors with a general overview of the Board's financial position. If you have any questions or need additional financial information, contact Dennis Veronese, Chief Financial Officer, at the Auburn City Board of Education, P.O. Box 3270, Auburn, AL 36831-3270 or by calling (334) 887-2100 during regular business hours, Monday through Friday, from 7:30 a.m. to 4:30 p.m., Central Standard Time.

BASIC FINANCIAL STATEMENTS

AUBURN CITY BOARD OF EDUCATION

STATEMENT OF NET POSITION

SEPTEMBER 30, 2021

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 58,058,518
Accounts receivable, net	6,368
Accrued interest receivable	123
Property tax receivable	9,683,054
Due from other governments	6,301,505
Inventories	<u>157,567</u>
Total current assets	<u>74,207,135</u>
Capital assets not being depreciated	
Land	18,829,988
Construction in progress	<u>48,653,613</u>
Total capital assets not being depreciated	<u>67,483,601</u>
Capital assets	
Land improvements	5,817,532
Buildings and improvements	200,291,608
Furniture, equipment and vehicles	15,446,031
Less accumulated depreciation	<u>(63,012,307)</u>
Total depreciable capital assets, net of depreciation	<u>158,542,864</u>
Total assets	<u>300,233,600</u>
DEFERRED OUTFLOWS OF RESOURCES	
Employer pension contribution	6,252,318
Proportionate share of collective deferred outflows related to net pension liability	16,447,000
Employer other post-employment benefits (OPEB) contribution	1,281,123
Proportionate share of collective deferred outflows related to other post-employment benefits (OPEB) liability	<u>22,467,367</u>
Total deferred outflows of resources	<u>46,447,808</u>

The notes to the financial statements are an integral part of this statement.

AUBURN CITY BOARD OF EDUCATION
STATEMENT OF NET POSITION - continued
SEPTEMBER 30, 2021

	Governmental Activities
LIABILITIES	
Accounts payable	5,859,884
Due to other governments	849
Unearned revenues	1,316,125
Salaries and benefits payable	7,196,461
Notes payable - due in less than 1 year	38,475
Notes payable - due after 1 year	38,613
Proportionate share of collective net pension liability	88,702,000
Proportionate share of collective net OPEB liability	<u>47,957,475</u>
Total liabilities	<u>151,109,882</u>
DEFERRED INFLOWS OF RESOURCES	
Future property tax revenue	9,683,054
Proportionate share of collective deferred inflows related to net pension liability	1,558,000
Proportionate share of collective deferred inflows related to net OPEB liability	<u>32,816,894</u>
Total deferred inflows of resources	<u>44,057,948</u>
NET POSITION	
Net investment in capital assets	225,949,377
Restricted for	
Other projects	4,577,985
Unrestricted	<u>(79,013,784)</u>
Total net position	<u><u>\$ 151,513,578</u></u>

The notes to the financial statements are an integral part of this statement.

AUBURN CITY BOARD OF EDUCATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2021

Functions/Programs	Expenses	Program Revenues			Net (Expenses)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenues and Changes in Net Position
					Total Governmental Activities
Governmental activities					
Instruction	\$ 64,313,727	\$ 788,344	\$ 42,440,884	\$ 3,973,497	\$ (17,111,002)
Instructional support	19,721,793	769,193	10,275,030	78,232	(8,599,338)
Operation and maintenance	8,712,491	193,258	1,764,729	836,736	(5,917,768)
Auxiliary services					
Student transportation services	5,368,060	93,221	4,001,584	739,753	(533,502)
Food services	1,349,520	1,027,083	127,207	-	(195,230)
General administrative services	3,370,067	820	452,761	-	(2,916,486)
Other	4,244,541	3,977,958	417,123	-	150,540
Interest and fiscal charges	9,047	-	-	-	(9,047)
Total governmental activities	<u>\$ 107,089,246</u>	<u>\$ 6,849,877</u>	<u>\$ 59,479,318</u>	<u>\$ 5,628,218</u>	<u>(35,131,833)</u>
General revenues					
Taxes					
Property taxes for general purposes					15,579,782
Property taxes for specific purposes					5,267,839
Local sales taxes					10,347,335
Alcohol beverage tax					666,173
Other taxes					58,131
Grants and contributions not restricted					1,140
City Council appropriations/payments					27,900,085
Investment earnings					83,459
Miscellaneous					<u>735,726</u>
Total general revenues					<u>60,639,670</u>
Change in net position					25,507,837
Net position, beginning of year					<u>126,005,741</u>
Net position, end of year					<u>\$ 151,513,578</u>

The notes to the financial statements are an integral part of this statement.

AUBURN CITY BOARD OF EDUCATION
BALANCE SHEET - GOVERNMENTAL FUNDS

SEPTEMBER 30, 2021

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 25,805,062	\$ 25,544,230	\$ 6,709,226	\$ 58,058,518
Receivables, net				
Accounts	1,368	-	5,000	6,368
Interest	123	-	-	123
Due from other governments	1,198,665	3,856,050	1,246,790	6,301,505
Interfund receivable	10,670	-	68,319	78,989
Inventories	-	-	157,567	157,567
Total assets	<u>\$ 27,015,888</u>	<u>\$ 29,400,280</u>	<u>\$ 8,186,902</u>	<u>\$ 64,603,070</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 1,068,947	\$ 4,359,405	\$ 431,532	\$ 5,859,884
Due to other governments	849	-	-	849
Unearned revenue	-	1,119,610	196,515	1,316,125
Interfund payable	68,319	-	10,670	78,989
Salaries and benefits payable	6,619,321	-	577,140	7,196,461
Total liabilities	<u>7,757,436</u>	<u>5,479,015</u>	<u>1,215,857</u>	<u>14,452,308</u>
Fund balances				
Nonspendable	-	-	157,567	157,567
Restricted	1,586,865	-	2,833,553	4,420,418
Committed	-	-	4,300,718	4,300,718
Assigned	155,645	23,921,265	-	24,076,910
Unassigned	17,515,942	-	(320,793)	17,195,149
Total fund balances	<u>19,258,452</u>	<u>23,921,265</u>	<u>6,971,045</u>	<u>50,150,762</u>
Total liabilities and fund balances	<u>\$ 27,015,888</u>	<u>\$ 29,400,280</u>	<u>\$ 8,186,902</u>	<u>\$ 64,603,070</u>

The notes to the financial statements are an integral part of this statement.

AUBURN CITY BOARD OF EDUCATION
 RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET POSITION

SEPTEMBER 30, 2021

Total fund balances - governmental funds		\$ 50,150,762
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
<p>• Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. These assets consist of:</p>		
Land	18,829,988	
Land improvements	5,817,532	
Buildings and improvements	200,291,608	
Furniture, equipment and vehicles	15,446,031	
Construction in progress	48,653,613	
Less accumulated depreciation	<u>(63,012,307)</u>	
Total capital assets, net of depreciation		226,026,465
<p>Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds.</p>		
		21,141,318
<p>Deferred outflows and inflows of resources related to OPEB obligations are applicable to future periods and, therefore, are not reported in the governmental funds.</p>		
		(9,068,404)
<p>• Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds but are listed in the governmental activities. These liabilities consist of:</p>		
Current portion of long-term liabilities	(38,475)	
Noncurrent portion of long-term liabilities	(38,613)	
Proportionate share of collective net OPEB liability	(88,702,000)	
Proportionate share of collective net pension liability	<u>(47,957,475)</u>	
Total liabilities		<u>(136,736,563)</u>
Total net position - governmental activities		<u>\$ 151,513,578</u>

The notes to the financial statements are an integral part of this statement.

AUBURN CITY BOARD OF EDUCATION

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2021

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
State	\$ 52,823,088	\$ 5,621,576	\$ 7,500	\$ 58,452,164
Federal	69,504	-	10,357,552	10,427,056
Local	41,915,072	18,255,445	3,231,152	63,401,669
Other	198,137	93,496	17,302	308,935
Total revenues	<u>95,005,801</u>	<u>23,970,517</u>	<u>13,613,506</u>	<u>132,589,824</u>
EXPENDITURES				
Current				
Instruction	51,496,811	472,480	6,126,139	58,095,430
Instructional support	17,454,937	115,103	1,623,639	19,193,679
Operation and maintenance	7,857,338	723,934	65,474	8,646,746
Auxiliary services	4,936,012	751,855	1,182,053	6,869,920
General administrative services	2,731,335	-	245,038	2,976,373
Other	337,209	-	4,405,284	4,742,493
Capital outlay	-	23,114,859	179,749	23,294,608
Debt service				
Principal retirement	-	-	33,543	33,543
Interest	-	-	9,048	9,048
Total expenditures	<u>84,813,642</u>	<u>25,178,231</u>	<u>13,869,967</u>	<u>123,861,840</u>
Excess (deficiency) of revenues over expenditures	<u>10,192,159</u>	<u>(1,207,714)</u>	<u>(256,461)</u>	<u>8,727,984</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	336,256	9,000,000	1,577,512	10,913,768
Long-term debt issued	-	-	27,886	27,886
Proceeds from the sale of assets	54,330	-	-	54,330
Indirect cost	408,234	-	-	408,234
Other sources	4,242	-	3,016	7,258
Transfers out	<u>(10,577,512)</u>	<u>-</u>	<u>(336,256)</u>	<u>(10,913,768)</u>
Total other financing sources (uses)	<u>(9,774,450)</u>	<u>9,000,000</u>	<u>1,272,158</u>	<u>497,708</u>
Net changes in fund balances	417,709	7,792,286	1,015,697	9,225,692
Fund balances, beginning of year	<u>18,840,743</u>	<u>16,128,979</u>	<u>5,955,348</u>	<u>40,925,070</u>
Fund balances, end of year	<u>\$ 19,258,452</u>	<u>\$ 23,921,265</u>	<u>\$ 6,971,045</u>	<u>\$ 50,150,762</u>

The notes to the financial statements are an integral part of this statement.

AUBURN CITY BOARD OF EDUCATION

RECONCILIATION OF THE STATEMENT OF REVENUES, EXENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2021

Net changes in fund balances - total governmental funds \$ 9,225,692

Amounts reported for governmental activities in the Statement of

Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlays	24,592,995	
Depreciation	<u>(5,852,716)</u>	18,740,279

Proceeds from the issuance of debt are reported as financing sources in governmental funds and thus contribute to the change in fund balance. Issuing long-term debt increases liabilities in the Statement of Net Position but does not affect the Statement of Activities. (27,886)

In the Statement of Activities, only the gain or loss on the disposition of assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. The change in net position differs from the change in fund balance by the net book value of the assets sold.

Cost of assets disposed	4,108,564	
Less accumulated depreciation	<u>(3,687,280)</u>	(421,284)

Repayment of debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities. 33,543

The increase or decrease in OPEB expense reported in the Statement of Activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in the governmental funds. This is the amount by which current year OPEB payments exceeded current year OPEB expense. 2,468,751

The increase or decrease in pension expense reported in the Statement of Activities does not require the use of current financial resources and, therefore, is not reported an an expenditure in the governmental funds. This is the amount by which current year pension expense exceeded current year pension payments. (4,511,258)

Change in net position of governmental activities \$ 25,507,837

The notes to the financial statements are an integral part of this statement.

AUBURN CITY BOARD OF EDUCATION
STATEMENT OF FIDUCIARY NET POSITION

SEPTEMBER 30, 2021

	<u>Private - Purpose Trusts</u>	<u>Custodial Funds</u>
ASSETS		
Cash and cash equivalents	\$ 2,236,721	\$ 668,962
Investments	<u>59,886</u>	<u>-</u>
Total assets	<u>\$ 2,296,607</u>	<u>\$ 668,962</u>
LIABILITIES		
Accounts payable	<u>\$ -</u>	<u>\$ 48,518</u>
NET POSITION		
Reserved for scholarships	2,296,607	-
Restricted for student groups	<u>-</u>	<u>620,444</u>
Total net position	<u>\$ 2,296,607</u>	<u>\$ 620,444</u>

The notes to the financial statements are an integral part of this statement.

AUBURN CITY BOARD OF EDUCATION
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2021

	Private - Purpose Trusts	Custodial Funds
ADDITIONS		
Dues and fees (self-imposed)	\$ -	\$ 154,226
Earnings on investments	6,329	-
Other sources	-	59,055
Private donations	658	110,194
Student fundraisers	-	426,749
Total additions	6,987	750,224
DEDUCTIONS		
Instructional	-	38,148
Instructional support	-	531,885
Auxiliary Services:		
Student Transportation	-	2,046
Other	-	101,583
Transfers out	-	38,974
Scholarships awarded	17,297	-
Unrealized loss on investments	4,093	-
Total deductions	21,390	712,636
Change in net position	(14,403)	37,588
Net position, beginning of year	2,311,010	582,856
Net position, end of year	\$ 2,296,607	\$ 620,444

The notes to the financial statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

AUBURN CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2021

Note 1 - Summary of Significant Accounting Policies

The financial statements of the Auburn City Board of Education (the "Board"), a component unit of the City of Auburn, Alabama, have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the Board's accounting policies are described below.

A. Reporting Entity

Statement No. 14 (as amended) of the Governmental Accounting Standards Board establishes standards for defining and reporting on the financial reporting entity. The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for agencies that make up its legal entity. It is also financially accountable for a legally separate agency if its officials appoint a voting majority of that agency's governing body and either it is able to impose its will on that agency or there is a potential for the agency to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. There are no component units which should be included as part of the financial reporting entity of the Auburn City Board of Education.

The Board is a legally separate agency of the State of Alabama. However, for financial reporting purposes, the Board is considered a component unit of the City of Auburn, Alabama (the "City"), due to the following reasons:

- (1) The City appoints the five (5) members of the governing body of the Board.
- (2) The City issues bonds for the construction of facilities for the Board and the City is obligated for the debt.
- (3) The City makes annual appropriations to the Board.

The financial statements of the Board include the local school public and nonpublic funds under the control of school principals. The public funds are included as local special revenue funds. Nonpublic club activity funds are included as custodial funds.

B. Basis of Presentation, Basis of Accounting

Basis of Presentation

Government-Wide Financial Statements - The *statement of net position* and the *statement of activities* display information about the Board. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Although other governments may report both governmental activities and business-type activities, the Board has no business-type activities.

The *statement of activities* presents a comparison between direct expenses and program revenues for each function of the Board's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a

AUBURN CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2021

Note 1 - Summary of Significant Accounting Policies - continued

particular function. The Board does not allocate indirect expenses to the various functions. Program revenues include (a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or program and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements - The fund financial statements provide information about the Board's funds, including its fiduciary funds. Separate statements for each fund category (governmental and fiduciary) are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as Other Governmental Funds.

The Board reports the following major governmental funds:

- General Fund - This fund is the primary operating fund of the Board. It is used to account for all financial resources except those required to be accounted for in another fund.
- Capital Projects Fund - This fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

The Board reports the following fund types in the Other Governmental Funds column:

- Debt Service Fund - This fund accounts for the payment of principal and interest on the Board's outstanding long-term debt.
- Special Revenue Funds - These funds account for the proceeds of specific revenue sources (other than those derived from special assessments or dedicated for major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

Fiduciary funds are used to report assets held in a trustee or custodial capacity for others and therefore cannot be used to support the Board's programs. The Board reports the following fiduciary funds:

- Custodial Fund - These funds are used to report assets held by the Board in a purely custodial capacity. The Board collects local school nonpublic funds and expends them at the request of the various school clubs and organizations.
- Private-Purpose Trust Fund - This fund is used to report activities of the John W. and Leila M. Harris Scholarship Fund which awards an annual scholarship to an Auburn High School graduating senior, the People Reaching Independence thru Development and Education ("PRIDE") Endowment Scholarship Fund which awards scholarships to qualified Auburn Housing Authority students and the GTE Endowment Scholarship Fund which awards scholarships to graduates of Auburn High School. Additional information on endowments is discussed in Note 16.

AUBURN CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2021

Note 1 - Summary of Significant Accounting Policies - continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide and Fiduciary Fund Financial Statements - The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues, or additions for fiduciary funds, are recorded when earned and expenses, or deductions for fiduciary funds, are recorded at the time liabilities are incurred, regardless of the timing of related cash flows. Nonexchange transactions, in which the Board gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Governmental Fund Financial Statements - Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Board considers revenues to be available if they are collected within sixty (60) days of the end of the current fiscal year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. General long-term debt issued and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the Board funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted resources available to finance the program. It is the Board's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general revenues.

C. Assets, Liabilities, and Net Position/Fund Balances

1. Deposits

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

2. Investments

The Board's investments are reported at fair value based on quoted market prices (Note 3).

3. Receivables

Receivables are reported as receivables and due from other governments in the government-wide financial statements and as receivables, due from other funds and due from other governments in the fund financial statements. Receivables due from other governments include amounts due from grantors for grants issued for specific programs, local taxes, and amounts due from the City of Auburn for reimbursement of construction project expenditures that are funded by bonds issued by the City on the Board's behalf. No allowances are made for uncollectible amounts because the amounts are considered immaterial.

AUBURN CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2021

Note 1 - Summary of Significant Accounting Policies - continued

Millage rates for property taxes are levied by the County Commission in February of each year. Property taxes are assessed for property as of October 1 of the preceding year based on the millage rates. Property taxes are due and payable the following October 1 and are delinquent after December 31. Amounts receivable, net of estimated refunds and estimated uncollectible amounts, are recorded for the property taxes levied in the current year. However, since the amounts are not available to fund current year operations, the revenue is a deferred inflow of resources that will be recognized in the subsequent fiscal year when the taxes are both due and collectible and available to fund operations.

4. Inventories

Inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

5. Capital Assets

Capital assets, which may include property, equipment, and infrastructure assets, are reported in the applicable governmental activities column in the government-wide financial statements. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Major capital outlays of capital assets and improvements are capitalized as projects are constructed.

Depreciation is computed over the estimated useful lives of the assets on a straight-line basis for all major asset classes. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets reported in the government-wide statements are as follows:

	Capitalization Threshold	Estimated Useful Life
Land improvements	\$ 50,000	20-50 years
Buildings and improvements	\$ 50,000	20-50 years
Furniture and equipment	\$ 5,000	5-20 years
Vehicles	\$ 5,000	10 years

6. Compensated Absences

For vacation leave and other compensated absences with similar characteristics, GASB Statement No. 16 requires the accrual of a liability as the benefits are earned by the employees if both of these conditions are met:

- (1) The employees' rights to receive compensation are attributable to service already rendered.
- (2) It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

AUBURN CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2021

Note 1 - Summary of Significant Accounting Policies - continued

An accrual for earned sick leave should be made only to the extent it is probable that the benefits will result in termination payments, rather than be taken as absences due to illness or other contingencies, such as medical appointments and funerals.

Non-tenured certified and support personnel are provided two state days and one local personal leave day per year and tenured personnel are provided two state days and three local personal leave days per year. All personnel may choose to convert personal leave days to sick leave days at the end of the school year. Only certified employees may choose to be paid, at the Board's substitute rate, for up to two state days of unused personal leave. Because unused personal leave cannot be carried over to succeeding years, no liability for unpaid leave is accrued in the financial statements.

Professional, clerical, and office personnel with twelve (12) month positions earn ten (10) days of vacation per year. Because no extra compensation in lieu of vacation is allowed and terminal leave cannot exceed the employee's contract, no liability is recorded on the financial statements.

Certified and support employees earn non-vesting sick leave at the rate of one day per month worked. Employees may convert their accrued sick leave as membership service in determining the total years of creditable service in the teachers' retirement system, with no additional cost to the Board. Because employees do not receive compensation for unused sick leave at termination, no liability is recorded on the financial statements.

7. Pensions

As discussed in Note 6, the Board participates in a defined benefit pension plan through the Teachers' Retirement System of Alabama (the "Plan"). The Plan's financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to plan requirements. Benefits and refunds are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with requirements of the Governmental Accounting Standards Board. Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report.

8. Postemployment Benefits Other Than Pensions (OPEB)

As discussed in Note 7, the Board participates in a defined benefit postemployment healthcare plan through the Alabama Retired Education Employees' Health Care Trust (the "Trust"). The Trust's financial statements are prepared by using the economic resources measurement focus and accrual basis of accounting. This includes for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Trust and additions to/deductions from the Trust's fiduciary net position. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due pursuant to plan requirements. Benefits are recognized when due and payable in accordance with the terms of the plan.

AUBURN CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2021

Note 1 - Summary of Significant Accounting Policies - continued

9. Net Position/Fund Balance

Net position is reported on the government-wide financial statements and is required to be classified for accounting and reporting purposes into the following net position categories:

- Net Investment in Capital Assets - Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. Any significant unspent related debt proceeds at year-end related to capital assets are not included in this calculation.
- Restricted - Constraints imposed by external creditors, grantors, contributors, laws or regulations of other governments, or law through constitutional provisions or enabling legislation.
- Unrestricted - Resources that are not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of the Board.

Fund balance is reported in the fund financial statements. The Board has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints:

- Nonspendable - Amounts that are not in spendable form (such as inventories, long-term loans and notes receivable, and property held for resale) or are required to be maintained intact.
- Restricted - Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed - Amounts constrained to specific purposes determined by a formal action by the Board itself (its highest level of decision-making authority). Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board.
- Assigned - Amounts the Board intends to use for a specific purpose. Intent can be expressed by the Board or by an official or body to which the Board delegates the authority.
- Unassigned - Amounts that are available for any purpose and are not contained in the other classifications.

When an expenditure is incurred for purposes for which both restricted and unrestricted resources are available, the Board considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Board considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed unless the Board has provided otherwise in its commitment or assignment actions.

AUBURN CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2021

Note 1 - Summary of Significant Accounting Policies - continued

10. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

D. Change in Accounting Principle

Implementation of GASB Statement No. 84

As of October 1, 2020, the Board adopted GASB Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. The impact to the Board resulted in a reclassification of the Board's student organization activities from agency funds to custodial funds.

Note 2 - Stewardship, Compliance and Accountability

Budgets

Annual budgets are adopted for all governmental funds except the Capital Projects Fund, which adopts project-length budgets. All annual appropriations lapse at fiscal year-end.

On or before October 1 of each year, the Board prepares and submits to the State Superintendent of Education the annual budget to be adopted. The Superintendent or Board may not approve any budget for operations of the school system for any fiscal year that shows expenditures in excess of income estimated to be available plus any balances on hand. The Superintendent, with the approval of the Board, has the authority to make changes within the approved budget provided that a deficit is not incurred by such changes. The Superintendent may approve amendments to program budgets without Board approval.

Note 3 - Deposits and Investments

Deposits

The Board's deposits at year-end were held by financial institutions in the State of Alabama's Security for Alabama Funds Enhancement (SAFE) Program. The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the *Code of Alabama 1975*, Sections 41-14A-1 through 41-14A-14. Under the SAFE Program, all public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. Under this program, financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance

AUBURN CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2021

Note 3 - Deposits and Investments - continued

Corporation (FDIC). If the securities pledged fail to produce adequate funds, every institution participating in the pool would share the liability for the remaining balances.

Investments

Investments of the Board consist of donated equity securities carried at fair market value. These securities are valued using quoted market prices obtained from the New York Stock Exchange or the NASDAQ (Level 1 inputs). The Board does not have a formal investment policy to address the specific types of risks to which the Board is exposed. In accordance with endowment agreements, investments of these funds are managed by a committee consisting of donor representatives, the president of the Board, and the Board Superintendent.

During fiscal year 2019, the Board received a donation consisting of cash and common stock from a private donor. These are recorded as investments within a Private-Purpose Trust on the statement of fiduciary position. At September 30, 2021, the fair market value of these securities was \$59,886, which consisted of 1,746 shares of Auburn National Bancorporation, Inc. (AUBN), valued at \$59,015, and 24 shares of Edgewell Personal Care Company (EPC), valued at \$871. For the year ending September 30, 2021, the unrealized loss from these securities was \$4,093. See Note 16 for additional information regarding the Private-Purpose Trusts and the related endowments.

The securities are insured by the Securities Investor Protection Corporation (SIPC) up to \$500,000, which includes a \$250,000 limit for cash. The Board is not subject to custodial credit risk since the value of these securities was under the SIPC limits.

Restricted Cash

At September 30, 2021, the Board's restricted cash was composed of the following, all of which are insured through the SAFE Program:

	<u>Carrying Value</u>	<u>Fair Value</u>
Cash - General Fund		
Educational Trust Fund		
Advancement & Technology Fund	\$ 1,584,570	\$ 1,584,570
Advanced Placement - State	3,271	3,271
Gifted Education	9,705	9,705
Penny Trust Fund	1,973	1,973
State Contracts	508	508
Robotics Grant Program	541	541
Cash - Other Governmental Funds		
Child Nutrition Program	2,297,953	2,297,953
Dental Clinic	107,078	107,078
E-rate	9,988	9,988
	<u>\$ 4,015,587</u>	<u>\$ 4,015,587</u>

AUBURN CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2021

Note 4 - Unearned Revenues

Governmental funds report unearned revenues in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also delay revenue recognition in connection with resources that have been received, but not yet earned. At September 30, 2021, the various components of unearned revenue reported in the governmental funds were as follows:

	<u>Unearned Revenues</u>
Child Nutrition Program	\$ 196,515
Capital Projects	1,119,610
Total	<u>\$ 1,316,125</u>

Note 5 - Capital Assets

Capital asset activity for the year ended September 30, 2021, was as follows:

	Balance 10/1/2020	Additions	Retirements/ Reclassifications	Balance 9/30/2021
<u>Governmental activities:</u>				
<u>Capital assets not being depreciated:</u>				
Land	\$ 13,477,539	\$ 5,352,449	\$ -	\$ 18,829,988
Construction in progress	32,609,378	17,372,386	(1,328,151)	48,653,613
Total capital assets not being depreciated	<u>46,086,917</u>	<u>22,724,835</u>	<u>(1,328,151)</u>	<u>67,483,601</u>
<u>Capital assets being depreciated:</u>				
Land improvements	5,829,407	207,295	(219,170)	5,817,532
Buildings and improvements	201,505,349	1,662,743	(2,876,484)	200,291,608
Furniture, equipment and vehicles	15,132,668	1,326,273	(1,012,910)	15,446,031
Total capital assets being depreciated	<u>222,467,424</u>	<u>3,196,311</u>	<u>(4,108,564)</u>	<u>221,555,171</u>
<u>Less accumulated depreciation for:</u>				
Land improvements	(3,600,191)	(168,695)	218,986	(3,549,900)
Buildings and improvements	(47,830,878)	(4,560,052)	2,474,239	(49,916,691)
Furniture, equipment and vehicles	(9,415,802)	(1,123,969)	994,055	(9,545,716)
Total accumulated depreciation	<u>(60,846,871)</u>	<u>(5,852,716)</u>	<u>3,687,280</u>	<u>(63,012,307)</u>
Total capital assets being depreciated, net	<u>161,620,553</u>	<u>(2,656,405)</u>	<u>(421,284)</u>	<u>158,542,864</u>
Total governmental activities capital assets, net	<u>\$ 207,707,470</u>	<u>\$ 20,068,430</u>	<u>\$ (1,749,435)</u>	<u>\$ 226,026,465</u>

Depreciation expense was charged to governmental functions/programs as follows:

<u>Governmental activities:</u>	
Instruction	\$ 4,790,835
Instructional support	79,095
Operation and maintenance	83,541
<u>Auxiliary services:</u>	
Student transportation services	854,287
Food services	43,208
General administrative services	1,750
Total depreciation expense - governmental activities	<u>\$ 5,852,716</u>

AUBURN CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2021

Note 6 - Defined Benefit Pension Plan

A. Plan Description

The Board's employees are members of the Teachers' Retirement System of Alabama (TRS). The TRS, a cost-sharing multiple-employer public employee retirement plan, was established as of September 15, 1939, pursuant to the *Code of Alabama 1975, Title 16, Chapter 25* (Act 419 of the Legislature of 1939) for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by State-supported educational institutions. The responsibility for the general administration and operation of the TRS is vested in its Board of Control which consists of 15 trustees. The plan is administered by the Retirement Systems of Alabama (RSA). The *Code of Alabama 1975, Title 16, Chapter 25* grants the authority to establish and amend the benefit terms to the TRS Board of Control. The Plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.

B. Benefits Provided

State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the TRS. Benefits for TRS members vest after 10 years of creditable service. TRS members who retire after age 60 with 10 years or more of creditable service or with 25 years of service (regardless of age) are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the TRS are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service.

Act 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 TRS members are eligible for retirement after age 62 with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the TRS are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service. Members are eligible for disability retirement if they have 10 years of credible service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits equal to the annual earnable compensation of the member, as reported to the Plan for the preceding year ending June 30, are paid to a qualified beneficiary.

C. Contributions

Covered members of the TRS contributed 5% of earnable compensation to the TRS as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, covered members of the TRS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered members of the TRS are required by statute to contribute 7.50% of earnable compensation.

AUBURN CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2021

Note 6 - Defined Benefit Pension Plan - continued

Tier 2 covered members of the TRS contribute 6% of earnable compensation to the TRS as required by statute.

Participating employers' contractually required contribution rate for the year ended September 30, 2021, was 12.36% (12.43% for 2020) of annual pay for Tier 1 members and 11.22% (11.34% for 2020) of annual pay for Tier 2 members. These required contribution rates are a percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the Board were \$6,252,318 for the year ended September 30, 2021.

D. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2021, the Board reported a liability of \$88,702,000 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2019. The Board's proportion of the collective net pension liability was based on the employers' shares of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At September 30, 2020, the Board's proportion was 0.717094%, which was an increase of 0.041188% from its proportion measured as of September 30, 2019.

For the year ended September 30, 2021, the Board recognized pension expense of \$10,763,576. At September 30, 2021, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 4,390,000	\$ 1,538,000
Changes of assumptions	923,000	-
Net difference between projected and actual earnings on pension plan investments	6,588,000	-
Changes in proportion and differences between Employer contributions and proportionate share of contributions	4,546,000	20,000
Employer contributions subsequent to the measurement date	6,252,318	-
Total	<u>\$ 22,699,318</u>	<u>\$ 1,558,000</u>

Deferred outflows of resources related to pensions resulting from Board contributions subsequent to the measurement date (\$6,252,318) will be recognized as a reduction of the net pension liability in the year ended September 30, 2022.

AUBURN CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2021

Note 6 - Defined Benefit Pension Plan - continued

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:	
2022	\$ 3,476,000
2023	\$ 4,524,000
2024	\$ 4,358,000
2025	\$ 2,531,000
2026	\$ -
Thereafter	\$ -

E. Actuarial Assumptions

The total pension liability as of September 30, 2020, was determined by an actuarial valuation as of September 30, 2019, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Investment rate of return*	7.70%
Projected salary increases	3.25% - 5.00%

*Net of pension plan investment expense, including inflation.

The actuarial assumptions used in the actuarial valuation as of September 30, 2019, were based on the results of an investigation of the economic and demographic experience for the TRS based upon participant data as of September 30, 2015. The Board of Control accepted and approved these changes in September 2016 which became effective at the beginning of fiscal year 2016 (the discount rate of 7.70% was adopted on December 4, 2018).

Mortality rates for TRS were based on the RP-2000 White Collar Mortality Table projected to 2020 using scale BB and adjusted 115% for males and 112% for females age 78 and over.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

AUBURN CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2021

Note 6 - Defined Benefit Pension Plan - continued

The target asset allocation and best estimates of geometric real rates of return for each major asset class are as follows:

	Target Allocation	Long-Term Expected Rate of Return*
Fixed Income	17.00%	4.40%
U.S. Large Stocks	32.00%	8.00%
U.S. Mid Stocks	9.00%	10.00%
U.S. Small Stocks	4.00%	11.00%
International Developed Market Stocks	12.00%	9.50%
International Emerging Market Stocks	3.00%	11.00%
Alternatives	10.00%	10.10%
Real Estate	10.00%	7.50%
Cash Equivalents	3.00%	1.50%
Total	100.00%	

*Includes assumed rate of inflation of 2.50%

F. Discount Rate

The discount rate used to measure the total pension liability was 7.70%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Sensitivity of the Board's Proportionate Share of Net Pension Liability to Changes in the Discount Rate

The following table presents the Board's proportionate share of the net pension liability calculated using the discount rate of 7.70%, as well as what the Board's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.70%) or one percentage-point higher (8.70%) than the current rate:

	1% Decrease (6.70%)	Current Rate (7.70%)	1% Increase (8.70%)
Board's proportionate share of collective net pension liability	\$ 118,347,000	\$ 88,702,000	\$ 63,619,000

AUBURN CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2021

Note 6 - Defined Benefit Pension Plan - continued

H. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2020. The supporting actuarial information is included in the GASB Statement No. 67 Report for the TRS prepared as of September 30, 2020. The auditor's report on the Schedule of Employer Allocations and Pension Amounts by Employer and accompanying notes detail by employer and in aggregate information needed to comply with GASB 68. The additional financial and actuarial information is available at <http://www.rsa-al.gov/index.php/employers/financial-reports/gasb-68-reports/>.

Note 7 - Other Postemployment Benefits (OPEB)

General Information about the OPEB Plan

A. Plan Description

The Alabama Retired Education Employees' Health Care Trust (Trust) is a cost-sharing multiple-employer defined benefit postemployment healthcare plan that administers healthcare benefits to the retirees of participating state and local educational institutions. The Trust was established under the Alabama Retiree Health Care Funding Act of 2007 which authorized and directed the Public Education Employees' Health Insurance Board (PEEHIP Board) to create an irrevocable trust to fund postemployment healthcare benefits to retirees participating in the Public Education Employees' Health Insurance Plan (PEEHIP). Active and retiree health insurance benefits are paid through the PEEHIP. In accordance with GASB, the Trust is considered a component unit of the State of Alabama (State) and is included in the State's Comprehensive Annual Financial Report.

The PEEHIP was established in 1983 pursuant to the provisions of the *Code of Alabama 1975, Title 16, Chapter 25A (Act 83-455)* to provide a uniform plan of health insurance for active and retired employees of state and local educational institutions which provide instruction at any combination of grades K-14 (collectively, eligible employees), and to provide a method for funding the benefits related to the plan. The four-year universities participate in the plan with respect to their retired employees and are eligible and may elect to participate in the plan with respect to their active employees. Responsibility for the establishment of the health insurance plan and its general administration and operations is vested in the PEEHIP Board. The PEEHIP Board is a corporate body for purposes of management of the health insurance plan. The *Code of Alabama 1975, Section 16-25A-4* provides the PEEHIP Board with the authority to amend the benefit provisions in order to provide reasonable assurance of stability in future years for the plan. All assets of the PEEHIP are held in trust for the payment of health insurance benefits. The Teachers' Retirement System of Alabama (TRS) has been appointed as the administrator of the PEEHIP and, consequently, serves as the administrator of the Trust.

B. Benefits Provided

PEEHIP offers a basic hospital medical plan to active members and non-Medicare eligible retirees. Benefits include inpatient hospitalization for a maximum of 365 days without a dollar limit, inpatient rehabilitation, outpatient care, physician services, and prescription drugs.

AUBURN CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2021

Note 7 - Other Postemployment Benefits (OPEB) - continued

Active employees and non-Medicare eligible retirees who do not have Medicare eligible dependents can enroll in a health maintenance organization (HMO) in lieu of the basic hospital medical plan. The HMO includes hospital medical benefits, dental benefits, vision benefits, and an extensive formulary. However, participants in the HMO are required to receive care from a participating physician in the HMO plan.

The PEEHIP offers four optional plans (Hospital Indemnity, Cancer, Dental, and Vision) that may be selected in addition to or in lieu of the basic hospital medical plan or HMO. The Hospital Indemnity Plan provides a per-day benefit for hospital confinement, maternity, intensive care, cancer, and convalescent care. The Cancer Plan covers cancer disease only and benefits are provided regardless of other insurance. Coverage includes a per-day benefit for each hospital confinement related to cancer. The Dental Plan covers diagnostic and preventative services, as well as basic and major dental services. Diagnostic and preventative services include oral examinations, teeth cleaning, x-rays, and emergency office visits. Basic and major services include fillings, general aesthetics, oral surgery not covered under a Group Medical Program, periodontics, endodontics, dentures, bridgework, and crowns. Dental services are subject to a maximum of \$1,250 per year for individual coverage and \$1,000 per person per year for family coverage. The Vision Plan covers annual eye examinations, eyeglasses, and contact lens prescriptions.

PEEHIP members may opt to elect the PEEHIP Supplemental Plan as their hospital medical coverage in lieu of the PEEHIP Hospital Medical Plan. The PEEHIP Supplemental Plan provides secondary benefits to the member's primary plan provided by another employer. Only active and non-Medicare retiree members and dependents are eligible for the PEEHIP Supplemental Plan. There is no premium required for this plan, and the plan covers most out-of-pocket expenses not covered by the primary plan. The plan cannot be used as a supplement to Medicare, the PEEHIP Hospital Medical Plan, or the State or Local Governmental Plans administered by the State Employees' Insurance Board (SEIB).

Effective January 1, 2020, Medicare eligible members and Medicare eligible dependents who are covered on a retiree contract were enrolled in the Humana Group Medicare Advantage plan for PEEHIP. The plan is fully insured, and members are able to have all of their Medicare Part A (hospital insurance), Part B (medical insurance), and Part D (prescription drug coverage) in one convenient plan. Retirees can continue to see their same providers with no interruption and see any doctor who accepts Medicare on a national basis. Members have the same benefits in and out-of-network and there is no additional retiree cost share if a retiree uses an out-of-network provider and no balance billing from the provider.

C. Contributions

The *Code of Alabama 1975, Section 16-25A-8* and the *Code of Alabama 1975, Section, 16-25A-8.1* provide the PEEHIP Board with the authority to set the contribution requirements for plan members and the authority to set the employer contribution requirements for each required class, respectively. Additionally, the PEEHIP Board is required to certify to the Governor and the Legislature, the amount, as a monthly premium per active employee, necessary to fund the coverage of active and retired member benefits for the following fiscal year. The Legislature then sets the premium rate in the annual appropriation bill.

AUBURN CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2021

Note 7 - Other Postemployment Benefits (OPEB) - continued

For employees who retired after September 30, 2005, but before January 1, 2012, the employer contribution of the health insurance premium set forth by the PEEHIP Board for each retiree class is reduced by 2% for each year of service less than 25 and increased by 2% percent for each year of service over 25, subject to adjustment by the Board for changes in Medicare premium costs required to be paid by a retiree. In no case does the employer contribution of the health insurance premium exceed 100% of the total health insurance premium cost for the retiree.

For employees who retired after December 31, 2011, the employer contribution to the health insurance premium set forth by the PEEHIP Board for each retiree class is reduced by 4% for each year of service less than 25 and increased by 2% for each year over 25, subject to adjustment by the PEEHIP Board for changes in Medicare premium costs required to be paid by a retiree. In no case does the employer contribution of the health insurance premium exceed 100% of the total health insurance premium cost for the retiree. For employees who retired after December 31, 2011, who are not covered by Medicare, regardless of years of service, the employer contribution to the health insurance premium set forth by the PEEHIP Board for each retiree class is reduced by a percentage equal to 1% multiplied by the difference between the Medicare entitlement age and the age of the employee at the time of retirement as determined by the PEEHIP Board. This reduction in the employer contribution ceases upon notification to the PEEHIP Board of the attainment of Medicare coverage.

D. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At September 30, 2021, the Auburn City Board of Education (Board) reported a liability of \$47,957,475 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of September 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2019. The Board's proportion of the net OPEB liability was based on the Board's share of contributions to the OPEB plan relative to the total employer contributions of all participating PEEHIP employers. At September 30, 2020, the Board's proportion was .738960%, which was a decrease of .083809% from its proportion measured as of September 30, 2019.

For the year ended September 30, 2021, the Board recognized OPEB expense of (\$1,187,628), with no special funding situations. At September 30, 2021, the Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,216,167	\$ 17,241,861
Changes of assumptions	16,751,171	8,905,265
Net difference between projected and actual earnings on OPEB plan investments	-	2,022
Changes in proportion and differences between Employer contributions and proportionate share of contributions	4,500,029	6,667,746
Employer contributions subsequent to the measurement date	<u>1,281,123</u>	<u>-</u>
Total	<u>\$ 23,748,490</u>	<u>\$ 32,816,894</u>

AUBURN CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2021

Note 7 - Other Postemployment Benefits (OPEB) - continued

Deferred outflows of resources related to OPEB resulting from Board contributions subsequent to the measurement date (\$1,281,123) will be recognized as a reduction of the net OPEB liability in the year ended September 30, 2022.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended September 30:	
2022	\$ (3,659,684)
2023	\$ (3,586,630)
2024	\$ (2,359,576)
2025	\$ (2,870,448)
2026	\$ 1,073,492
Thereafter	\$ 1,053,319

E. Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of September 30, 2019, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Projected salary increases*	3.25% - 5.00%
Long-term investment rate of return**	7.25%
Municipal bond index rate at the measurement date	2.25%
Municipal bond index rate at the prior measurement date	3.00%
Projected year for Fiduciary Net Position (FNP) to be depleted	2040
Single equivalent interest rate at the measurement date	3.05%
Single equivalent interest rate at the prior measurement date	5.50%
Healthcare cost trend rate	
Pre-Medicare eligible	6.75%
Medicare eligible	***
Ultimate trend rate	
Pre-Medicare eligible	4.75% in 2027
Medicare eligible	4.75% in 2024

*Includes 3% wage inflation.

**Compounded annually, net of investment expense, and includes inflation.

***Initial Medicare claims are set based on scheduled increases through plan year 2022.

AUBURN CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2021

Note 7 - Other Postemployment Benefits (OPEB) - continued

Mortality rates for the period after service retirement are according to the RP-2000 White Collar Mortality Table projected to 2020 using scale BB and adjusted 115% for males and 112% for females age 78 and older. The rates of disabled mortality were based on the RP-2000 Disabled Mortality Table projected to 2020 using scale BB and adjusted 105% for males and 120% for females.

The decremental assumptions used in the valuation were selected based on the actuarial experience study prepared as of September 30, 2015, submitted to, and adopted by the Teachers' Retirement System of Alabama Board on September 13, 2016.

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) were based on the September 30, 2019 valuation.

The long-term expected return on plan assets is to be reviewed as part of regular experience studies prepared every five years, in conjunction with similar analysis for the Teachers' Retirement System of Alabama. Several factors should be considered in evaluating the long-term rate of return assumption, including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation), as developed for each major asset class. These ranges should be combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The long-term expected rate of return on the OPEB plan investments is determined based on the allocation of assets by asset class and by the mean and variance of real returns.

AUBURN CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2021

Note 7 - Other Postemployment Benefits (OPEB) - continued

The target asset allocation and best estimates of expected geometric real rates of return for each major asset class is summarized below:

	Target Allocation	Long-Term Expected Rate of Return*
	<hr/>	<hr/>
Fixed Income	30.00%	4.40%
U.S. Large Stocks	38.00%	8.00%
U.S. Mid Stocks	8.00%	10.00%
U.S. Small Stocks	4.00%	11.00%
International Developed Market Stocks	15.00%	9.50%
Cash	5.00%	1.50%
Total	<hr/> <hr/> 100.00%	

*Geometric mean, includes 2.5% inflation

F. Discount Rate

The discount rate (also known as the Single Equivalent Interest Rate (SEIR), as described by GASB 74) used to measure the total OPEB liability at September 30, 2020, was 3.05%. The discount rate used to measure the total OPEB liability at the prior measurement date was 5.50%. Premiums paid to the Public Education Employees' Health Insurance Board for active employees include an amount to partially fund the cost of coverage for retired employees. The projection of cash flows used to determine the discount rate assumed that plan contributions will be made at the current contribution rates. Each year, the State specifies the monthly employer rate that participating school systems must contribute for each active employee. Approximately 14.802% of the employer contributions were used to assist in funding retired member benefit payments in 2020. It is assumed that the 14.802% will increase at the same rate as expected benefit payments for the closed group until reaching an employer rate of 20.000%, at which point this amount will increase by 1.00% in subsequent years. The discount rate determination will use a municipal bond rate to the extent the trust is projected to run out of money before all benefits are paid. Therefore, the projected future benefit payments for all current plan members were projected through 2118. The long-term rate of return is used until the assets are expected to be depleted in 2040, after which the municipal bond rate is used.

AUBURN CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2021

Note 7 - Other Postemployment Benefits (OPEB) - continued

G. Sensitivity of the Auburn City Board of Education's proportionate share of the net OPEB liability to changes in the healthcare cost trend rates.

The following table presents the Auburn City Board of Education's proportionate share of the net OPEB liability of the Trust calculated using the current healthcare trend rate, as well as what the net OPEB liability would be if calculated using one percentage point lower or one percentage point higher than the current rate:

	1% Decrease	Current Healthcare Trend Rate	1% Increase
	(5.75% decreasing to 3.75% for pre-Medicare, Known decreasing to 3.75% for Medicare eligible)	(6.75% decreasing to 4.75% for pre-Medicare, Known decreasing to 4.75% for Medicare eligible)	(7.75% decreasing to 5.75% for pre-Medicare, Known decreasing to 5.75% for Medicare eligible)
Board's proportionate share of collective net OPEB liability	<u>\$ 37,910,540</u>	<u>\$ 47,957,475</u>	<u>\$ 61,035,171</u>

The following table presents the Auburn City Board of Education's proportionate share of the net OPEB liability of the Trust calculated using the discount rate of 3.05%, as well as what the net OPEB liability would be if calculated using one percentage point lower or one percentage point higher than the current rate:

	1% Decrease <u>(2.05%)</u>	Current discount rate <u>(3.05%)</u>	1% Increase <u>(4.05%)</u>
Board's proportionate share of collective net OPEB liability	<u>\$ 58,822,332</u>	<u>\$ 47,957,475</u>	<u>\$ 39,328,426</u>

H. OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is in the Trust's financial statements for the fiscal year ended September 30, 2020. The supporting actuarial information is included in the GASB Statement No. 74 Report for PEEHIP prepared as of September 30, 2020. Additional financial and actuarial information is available at www.rsa-al.gov.

AUBURN CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2021

Note 8 - Construction and Other Significant Commitments

At September 30, 2021, the Board had six remaining commitments on uncompleted contracts for various construction and development projects, which are being funded with proceeds from bonds issued by the City of Auburn or with allocations from the Alabama Public School and College Authority (PSCA), as follows:

	<u>Project Authorization</u>	<u>Expended To Date</u>	<u>Remaining Commitment</u>	<u>Required Further Financing</u>
Drake Middle School Plan 2028	\$ 21,937,054	\$ 21,914,963	\$ 22,091	\$ -
Cary Woods Elementary School Plan 2028	16,774,057	16,690,891	83,166	-
Woodland Pines Elementary School (PSCA)	18,426,629	3,483,575	14,943,054	-
East Samford School Gym Replacement	8,196,800	3,174,067	5,022,733	-
ACS Master Plan 2028 - Warranty	80,529	-	80,529	-
AJHS Track and Field	<u>2,976,400</u>	<u>1,393,927</u>	<u>1,582,473</u>	-
Total	<u>\$ 68,391,469</u>	<u>\$ 46,657,423</u>	<u>\$ 21,734,046</u>	<u>\$ -</u>

Additional information on funding provided by other agencies is discussed in Note 20.

Note 9 - Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds or the General Fund. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Board expects such amounts, if any, to be immaterial.

The Board is involved in several ongoing legal matters. Although the outcome of these matters is not presently determinable and the amount of losses, if any, cannot be reasonably estimated, Board management and counsel believe that resolution of these matters will not have a material adverse effect on the financial condition of the Board.

Note 10 - Long-term Notes Payable

The Board has four installment agreements with Xerox for multiple printers at schools. These installment agreements were signed in July 2020 and October 2020, are payable in monthly installments of \$3,699 with interest rates between 8% and 10%, and mature in July 2023 and November 2023. Until the installment agreements are paid in full, Xerox has a purchase money security interest on the printers.

AUBURN CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2021

Note 10 - Long-term Notes Payable - continued

Notes payable of the Board as of September 30, 2021, are comprised of:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Governmental activities:				
Long-term debt				
Notes payable, Xerox	\$ 82,745	\$ 27,886	\$ (33,545)	\$ 77,086

The following schedule shows debt service to maturity for notes payable of the Board as of September 30, 2021:

<u>Fiscal Year</u>	<u>Total Annual Requirements</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 38,475	\$ 5,912	\$ 44,387
2023	36,836	1,951	38,787
2024	1,775	22	1,797
	<u>\$ 77,086</u>	<u>\$ 7,885</u>	<u>\$ 84,971</u>

Note 11 - Lease Obligations

Operating Leases

The Board is obligated under certain leases which are accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations. Therefore, the results of these lease agreements are not reflected as part of the Board's capital assets. The Board has several noncancelable leases for certain equipment that are classified as operating leases. Rent expense under these noncancelable leases was \$78,263 for the fiscal year ended September 30, 2021.

The approximate remaining annual minimum lease payments under the noncancelable operating leases existing as of September 30, 2021, are:

<u>Fiscal Year</u>	<u>Amount</u>
2022	\$ 37,600
2023	7,433
2024	<u>2,574</u>
Total	<u>\$ 47,607</u>

AUBURN CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2021

Note 12 - Deficit Cash Balance

The following funds had a deficit cash balance as of September 30, 2021. However, these funds operate on a reimbursement basis and have receivables which offset the deficit cash balances.

<u>Fund</u>	<u>Deficit Cash Balance</u>	<u>Receivable as of 09/30/21</u>
Title I, Part A	\$ (37,968)	\$ 45,262
Title III, English Language	(9,648)	9,648
Title IV, Part A Safe and Drug	(20,574)	56,358
Vocational Education	(10,940)	14,048
CARES Act - ESSER II	(148,224)	155,121
Student Support and Academic Enrichment Program	(4,408)	4,408
Totals	<u>\$ (231,762)</u>	<u>\$ 284,845</u>

Note 13 - Deficit Fund Balance

The Board has a net accumulated deficit of (\$320,793) in the Other Governmental Funds unassigned fund balance as of September 30, 2021. This temporary deficit is the result of accrued salaries and fringe benefits for local schools' personnel at September 30, 2021. Expenditures for salaries and related fringe benefits are budgeted based on the amount that will be paid from budgeted revenues. Salaries and related fringe benefits earned but not paid are reported as expenditures on the financial statements. This deficit does not indicate that the Board is facing financial difficulties and is a permitted practice under generally accepted accounting principles. Accrued salaries and fringe benefits caused a deficit fund balance in the following funds:

<u>Fund</u>	<u>Deficit Fund Balance</u>
IDEA, Part B	\$ (203,869)
Preschool, Part B	(4,294)
Title I, Part A	(94,975)
Title II, Part A	(17,655)
Totals	<u>\$ (320,793)</u>

Note 14 - Restricted Net Position

The government-wide *statement of net position* reports \$4,577,985 of restricted net position, of which \$2,854,831 is restricted for the Child Nutrition Program, \$126,301 is restricted for the Dental Clinic Program, \$1,584,570 is restricted for the Education Trust Fund Advancement and Technology Fund, \$9,988 is restricted for the E-rate Program, \$1,973 is restricted for the Penny Trust Fund, and \$322 is restricted for Gift Education Program.

AUBURN CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2021

Note 15 - Fund Balance, Governmental Funds

As of September 30, 2021, fund balances are composed of the following:

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Fund balances				
Nonspendable:				
Inventories	\$ -	\$ -	\$ 157,567	\$ 157,567
Restricted for:				
Child Nutrition Program	-	-	2,697,264	2,697,264
Dental Clinic Program	-	-	126,301	126,301
Educational Trust Fund				
Advancement & Technology Fund	1,584,570	-	-	1,584,570
E-rate Program	-	-	9,988	9,988
Gifted Education	322	-	-	322
Penny Trust Fund	1,973	-	-	1,973
Committed to:				
After-school program	-	-	2,218,530	2,218,530
Local schools	-	-	2,081,802	2,081,802
Student emergency medical program	-	-	386	386
Assigned to:				
Capital projects	-	23,921,265	-	23,921,265
Legislation appropriations fund	72,815	-	-	72,815
Other educational support	82,830	-	-	82,830
Unassigned	<u>17,515,942</u>	<u>-</u>	<u>(320,793)</u>	<u>17,195,149</u>
Total fund balances	<u>\$ 19,258,452</u>	<u>\$ 23,921,265</u>	<u>\$ 6,971,045</u>	<u>\$ 50,150,762</u>

Note 16 - Endowments

The Board's endowments consist of two individual Private-Purpose Trusts which are reported on the statement of fiduciary net position. These trusts were established by private donors to provide scholarships to graduates of Auburn High School.

Endowment Spending Policy

Both endowment agreements have the following spending policy: Scholarships or grants should be awarded each year in amounts at least equal to income earned in the prior year and up to 5% of principal may also be used. The unused principal amount can be carried over to the next year. The funds should be invested as outlined by the Investment Policy of the Board.

AUBURN CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2021

Note 16 - Endowments - continued

Net Appreciation of Endowments

As of September 30, 2021, the net appreciation available for expenditure is as follows:

Endowment	Amount of Historical Gifts	Fair Market Value as of 9/30/2021	Net appreciation available for expenditure
PRIDE	\$ 816,306	\$ 817,852	\$ 1,546
GTE	<u>1,475,928</u>	<u>1,478,754</u>	<u>2,826</u>
Total	<u>\$ 2,292,234</u>	<u>\$ 2,296,606</u>	<u>\$ 4,372</u>

Note 17 - Risk Management

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; and natural disasters. The Board has insurance for its buildings and contents through the State Insurance Fund (SIF), Alabama Department of Finance, Division of Risk Management, a public entity risk pool, which operates as a common risk management and insurance program for state-owned properties and boards of education. The Board pays an annual premium based on the amount of coverage. The SIF is self-insured up to \$10 million per nonwind-related loss occurrence and \$25 million per wind-related loss occurrence. The SIF purchases commercial insurance for claims in excess of these deductibles. Errors and omissions insurance is purchased from the Alabama Trust for Boards of Education (ATBE), a public entity risk pool. The ATBE collects the premiums and purchases commercial insurance for the amount of coverage requested by pool participants. The Board purchases commercial insurance for fidelity bonds and its transportation fleet. Settled claims in the past three years have not exceeded the commercial insurance coverage. Also, there have been no significant reductions in insurance coverage from the prior year.

Employee health insurance is provided through the Public Education Employees' Health Insurance Plan (PEEHIP), administered by the Public Education Employee's Health Insurance Board (PEEHIB). The PEEHIP was established to provide a uniform plan of health insurance for active and retired employees of state educational institutions and is self-sustaining. Monthly premiums for employee and dependent coverage are determined annually by the plan's actuary and are based on anticipated claims in the upcoming year, considering any remaining fund balance on hand available for claims. The Board's contribution is applied against the employees' premiums for the coverage selected and the employee pays any remaining balance.

The Board does not have insurance coverage for job-related injuries. Board employees who are injured while on the job are entitled to salary and fringe benefits of up to ninety working days in accordance with the *Code of Alabama* 1975, Section 16-1-18.1(d). Any unreimbursed medical expenses and costs that the employee incurs as a result of an on-the-job injury may be filed for reimbursement with the State Board of Adjustment. The State Board of Adjustment is a state agency with which employees can file claims against the Board to collect reimbursement for damages when all other means have been exhausted. The Board of Adjustment determines if a claim is valid and determines the proper amount of compensation. Payments are made from the state appropriated funds at no cost to the Board.

AUBURN CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2021

Note 18 - Donated Food Program

The commodities received from the Federal government in connection with the donated food program are reflected in the accompanying financial statements. The total assigned value of commodities donated was \$156,738 for 2021. Commodities consumed were approximately \$159,375 for 2021.

Note 19 - Interfund Activity

Transfers

The amounts of interfund transfers during the fiscal year ending September 30, 2021, were as follows:

	Transfers Out		
	General Fund	Nonmajor Governmental Funds	Totals
<u>Transfers In</u>			
General Fund	\$ -	\$ 336,256	\$ 336,256
Capital Projects Fund	9,000,000	-	9,000,000
Nonmajor Governmental Funds	<u>1,577,512</u>	-	<u>1,577,512</u>
Totals	<u>\$ 10,577,512</u>	<u>\$ 336,256</u>	<u>\$ 10,913,768</u>

The Board typically uses transfers to fund ongoing operating subsidies. Interfund transfers are eliminated on the government-wide financial statements.

Receivables and Payables

	Interfund Receivables	Interfund Payables
General Fund	\$ 10,670	\$ 68,319
Nonmajor Governmental Funds		
Child Nutrition	-	6,433
Dental Clinic	20,000	-
After School Program	2,573	-
Local Schools	<u>45,746</u>	<u>4,237</u>
Totals	<u>\$ 78,989</u>	<u>\$ 78,989</u>

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which the transactions are executed. The balances result from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments are made.

AUBURN CITY BOARD OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2021

Note 20 - Payments or Services Furnished by Other Agencies

Certain payments or services are furnished by the State of Alabama and the City of Auburn on behalf of the Board. Included in these items are payments from bond issue proceeds (Public School and College Authority) and donated fixed assets. These payments are reflected as revenues on the Board's financial statements in the applicable funds for which they apply. For the year ended September 30, 2021, the Public School and College Authority provided \$2,715,213 on behalf of the Board toward the construction of a new elementary school.

Payments made during the year by the City of Auburn on behalf of the Board for debt service and related bond expenditures were \$14,705,050. These payments are not recorded as revenue and expenditures in the accompanying financial statements.

Note 21 - Subsequent Events

On November 9, 2021, the Board approved the following: 1) an owner-architect agreement with McKee & Associates for re-roofing of East Samford School, Dean Road Elementary School, Auburn Junior High School, and the Central Office in the amount of \$29,400, 2) an owner-architect agreement with Barganier Davis Williams for renovations at J.F. Drake for \$126,201, and 3) a program management contract with TCU Program Management for renovations at J.F. Drake in the amount of \$90,000.

On December 14, 2021, the Board approved the following: 1) a purchase contract for 8 78-passenger buses from Busworx in the amount of \$859,712, 2) a purchase contract for one 54-passenger bus from Transportation South in the amount of \$103,290, and 3) the acceptance of 2.551 acres of land located between Richland Road and Highway 14 for a right-of-way for a proposed connector road.

On January 11, 2022, the Board approved an owner-architect agreement with Hydro Engineering Solutions for a parking expansion project at Auburn High School in the amount of \$42,000.

On February 7, 2022, the Board approved the following: 1) a contract change order with Hudmon Construction for Auburn Junior High School track & field improvements in the amount of \$311,845, 2) a contract change order with Freeman & Associates for J.F. Drake Middle School Plan 2028 project in the amount of \$47,906, 3) an engineering contract for lighting improvements at Duck Samford Stadium in the amount of \$29,600, and 4) a contract with Old South Construction for a re-roofing project at Auburn Junior High School, East Samford School, Dean Road Elementary School and the Central Office in the amount of \$529,311.

Management has evaluated subsequent events through March 11, 2022, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

AUBURN CITY BOARD OF EDUCATION

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2021

	Budgeted Amounts		Actual Amounts Budgetary Basis	Budget to GAAP Differences Over (Under)	Actual Amounts GAAP Basis	Final Budget to Actual Variance Favorable (Unfavorable)
	Original	Final				
REVENUES						
State	\$ 49,543,978	\$ 52,655,321	\$ 52,823,088	\$ -	\$ 52,823,088	\$ 167,767
Federal	74,500	74,500	69,504	-	69,504	(4,996)
Local	35,466,166	38,583,370	41,915,072	-	41,915,072	3,331,702
Other	172,000	187,360	198,137	-	198,137	10,777
Total revenues	<u>85,256,644</u>	<u>91,500,551</u>	<u>95,005,801</u>	<u>-</u>	<u>95,005,801</u>	<u>3,505,250</u>
EXPENDITURES						
Current						
Instruction	49,837,086	52,406,488	51,285,629 (1)	(211,182)	51,496,811	1,120,859
Instructional support	17,736,747	17,505,344	17,279,051 (1)	(175,886)	17,454,937	226,293
Operation and maintenance	7,942,748	8,842,005	7,848,823 (1)	(8,515)	7,857,338	993,182
Auxiliary services	4,716,934	5,978,204	4,908,322 (1)	(27,690)	4,936,012	1,069,882
General administrative services	3,075,172	3,039,452	2,729,344 (1)	(1,991)	2,731,335	310,108
Other	445,566	445,566	325,752 (1)	(11,457)	337,209	119,814
Capital outlay	-	768,297	-	-	-	768,297
Total expenditures	<u>83,754,253</u>	<u>88,985,356</u>	<u>84,376,921</u>	<u>(436,721)</u>	<u>84,813,642</u>	<u>4,608,435</u>
Excess of revenues over expenditures	<u>1,502,391</u>	<u>2,515,195</u>	<u>10,628,880</u>	<u>436,721</u>	<u>10,192,159</u>	<u>8,113,685</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	239,960	239,960	336,256	-	336,256	96,296
Other sources	423,408	416,982	466,806	-	466,806	49,824
Transfers out	(1,475,256)	(1,487,890)	(10,577,512)	-	(10,577,512)	(9,089,622)
Total other financing sources (uses)	<u>(811,888)</u>	<u>(830,948)</u>	<u>(9,774,450)</u>	<u>-</u>	<u>(9,774,450)</u>	<u>(8,943,502)</u>
Net change in fund balance	690,503	1,684,247	854,430	436,721	417,709	(829,817)
Fund balance, beginning of year	<u>18,620,829</u>	<u>25,023,344</u>	<u>25,023,344</u>	<u>6,182,601</u>	<u>18,840,743</u>	<u>-</u>
Fund balance, end of year	<u>\$ 19,311,332</u>	<u>\$ 26,707,591</u>	<u>\$ 25,877,774</u>	<u>\$ 6,619,322</u>	<u>\$ 19,258,452</u>	<u>\$ (829,817)</u>

Explanation of differences:

- (1) Salaries of teachers and other personnel with contracts of less than twelve months are paid over a twelve month period. Expenditures for salaries (and related fringe benefits) are budgeted based on the amount that will be paid from budgeted revenues. However, salaries (and related fringe benefits) earned but not paid are reported as expenditures on the financial statements.

AUBURN CITY BOARD OF EDUCATION

SCHEDULE OF THE BOARD'S PROPORTIONATE SHARE OF THE NET PENSION
LIABILITY OF THE TEACHERS' RETIREMENT SYSTEM OF ALABAMA

FOR THE FISCAL YEAR ENDED SEPTEMBER 30,

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Board's proportion of the net pension liability	<u>0.612854%</u>	<u>0.631834%</u>	<u>0.648927%</u>	<u>0.659297%</u>	<u>0.676221%</u>	<u>0.675906%</u>	<u>0.717094%</u>
Board's proportionate share of the net pension liability	<u>\$ 55,675,000</u>	<u>\$ 66,126,000</u>	<u>\$ 70,253,000</u>	<u>\$ 64,799,000</u>	<u>\$ 67,234,000</u>	<u>\$ 74,734,000</u>	<u>\$ 88,702,000</u>
Board's covered payroll	<u>\$ 38,933,400</u>	<u>\$ 40,066,024</u>	<u>\$ 41,505,021</u>	<u>\$ 43,853,094</u>	<u>\$ 45,312,856</u>	<u>\$ 48,488,603</u>	<u>\$ 51,097,297</u>
Board's proportionate share of the net pension liability as a percentage of its covered payroll	<u>143.00%</u>	<u>165.04%</u>	<u>169.26%</u>	<u>147.76%</u>	<u>148.38%</u>	<u>154.13%</u>	<u>173.59%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>71.01%</u>	<u>67.51%</u>	<u>67.93%</u>	<u>71.50%</u>	<u>72.29%</u>	<u>69.85%</u>	<u>67.72%</u>

AUBURN CITY BOARD OF EDUCATION
 SCHEDULE OF BOARD CONTRIBUTIONS TO THE
 TEACHERS' RETIREMENT SYSTEM OF ALABAMA
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30,

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Contractually required contribution	\$ 4,662,398	\$ 4,878,487	\$ 5,160,838	\$ 5,413,982	\$ 5,880,684	\$ 6,180,576	\$ 6,252,318
Contributions in relation to the contractually required contribution	<u>4,662,398</u>	<u>4,878,487</u>	<u>5,160,838</u>	<u>5,413,982</u>	<u>5,880,684</u>	<u>6,180,576</u>	<u>6,252,318</u>
Contributions deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Board's covered payroll	<u>\$ 40,066,024</u>	<u>\$ 41,505,021</u>	<u>\$ 43,853,094</u>	<u>\$ 45,312,856</u>	<u>\$ 48,488,603</u>	<u>\$ 51,097,297</u>	<u>\$ 52,199,883</u>
Contributions as a percentage of covered payroll	<u>11.64%</u>	<u>11.75%</u>	<u>11.77%</u>	<u>11.95%</u>	<u>12.13%</u>	<u>12.10%</u>	<u>11.98%</u>

(1) The amount of contractually required contributions is equal to the amount that would be recognized as additions from the employer's contributions in the pension plan's schedule of changes in the fiduciary net position during the period that coincides with the employer's fiscal year.

AUBURN CITY BOARD OF EDUCATION

SCHEDULE OF THE BOARD'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
OF THE ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST

FOR THE FISCAL YEAR ENDED SEPTEMBER 30,

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Board's proportion of the net OPEB liability	<u>0.735736%</u>	<u>0.769342%</u>	<u>0.822769%</u>	<u>0.738960%</u>
Board's proportionate share of the net OPEB liability	<u>\$ 54,646,267</u>	<u>\$ 63,230,114</u>	<u>\$ 31,041,164</u>	<u>\$ 47,957,475</u>
Board's covered-employee payroll	<u>\$ 43,118,496</u>	<u>\$ 44,649,495</u>	<u>\$ 48,756,351</u>	<u>\$ 51,179,964</u>
Board's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	<u>126.74%</u>	<u>141.61%</u>	<u>63.67%</u>	<u>93.70%</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>15.37%</u>	<u>14.81%</u>	<u>28.14%</u>	<u>19.80%</u>

AUBURN CITY BOARD OF EDUCATION
 SCHEDULE OF BOARD CONTRIBUTIONS TO THE
 ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30,

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Contractually required contribution	\$ 1,906,546	\$ 2,345,701	\$ 1,461,158	\$ 1,281,123
Contributions in relation to the contractually required contribution	<u>1,906,546</u>	<u>2,345,701</u>	<u>1,461,158</u>	<u>1,281,123</u>
Contributions deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Board's covered-employee payroll	<u>\$ 44,649,495</u>	<u>\$ 48,756,351</u>	<u>\$ 51,179,964</u>	<u>\$ 52,361,872</u>
Contributions as a percentage of covered-employee payroll	<u>4.27%</u>	<u>4.81%</u>	<u>2.85%</u>	<u>2.45%</u>

AUBURN CITY BOARD OF EDUCATION
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
 SEPTEMBER 30, 2021

Note 1 - Other Post-employment Benefits

A. Changes in Actuarial Assumptions

In 2019, the anticipated rates of participation, spouse coverage, and tobacco use were adjusted to more closely reflect actual experience. In 2016, rates of withdrawal, retirement, disability, mortality, spouse coverage, and tobacco usage were adjusted to more closely reflect actual experience. In 2016, economic assumptions and the assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience. In 2016 and later, the expectation of retired life mortality was changed to the RP-2000 White Collar Mortality Table projected to 2020 using scale BB and adjusted 115% for all ages for males and 112% for ages 78 and over for females.

B. Recent Plan Changes

Beginning in plan year 2021, the United Healthcare Medicare Advantage Plan with Prescription Drug Coverage (MAPD) plan premium rates exclude the ACA Health Insurer Fee which was repealed on December 20, 2019.

Effective January 1, 2017, Medicare eligible medical and prescription drug benefits are provided through the MAPD plan.

The Plan is changed each year to reflect the Affordable Care Act (ACA) maximum annual out-of-pocket amounts.

a. Method and Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contribution rates in the schedule of Board contributions were calculated as of September 30, 2017, which is three years prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule:

Actuarial cost method	Entry Age Normal
Amortization method	Level percent of pay
Remaining amortization period	24 years, closed
Asset valuation method	Market Value of Assets
Inflation	2.750%
Healthcare cost trend rate	
Pre-Medicare eligible	7.00%
Medicare eligible*	5.00%
Ultimate trend rate	
Pre-Medicare eligible	4.75%
Medicare eligible	4.75%
Year of ultimate trend rate	2026 for pre-Medicare eligible 2024 for Medicare eligible
Investment rate of return	5.00%, including inflation

*Initial Medicare claims are set based on scheduled increases through plan year 2019.

SUPPLEMENTARY INFORMATION

AUBURN CITY BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
SEPTEMBER 30, 2021

Federal Grantor/Pass-Through Grantor/Program Title	<u>Federal Assistance Number</u>	<u>Pass- Through Grantor's Number</u>	<u>Amount of Expenditures</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
<i>Passed through State Department of Education:</i>			
Special Education Cluster (IDEA):			
Special Education Grants to States	84.027	110	\$ 1,599,752
Special Education Preschool Grants	84.173	110	<u>33,985</u>
Subtotal Special Education Cluster (IDEA)			1,633,737
Title I Grants to Local Educational Agencies	84.010	110	1,043,862
Career and Technical Education - Basic Grants to States	84.048	110	103,371
English Language Acquisition State Grants	84.365	110	107,107
Supporting Effective Instruction State Grants	84.367	110	194,824
Student Support and Academic Enrichment Program	84.424A	110	126,911
COVID-19 - Education Stabilization Fund under the CARES Act - Governor's Emergency Education Relief Fund	84.425C	110	50,810
COVID-19 - Education Stabilization Fund under the CARES Act - Elementary and Secondary School Emergency Relief Fund	84.425D	110	1,450,742
COVID-19 - Education Stabilization Fund under the CARES Act - American Rescue Plan Elementary & Secondary School Emergency Relief	84.425U	110	<u>11,203</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>4,722,567</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
<i>Passed through State Department of Education:</i>			
Medical Assistance Program	93.778	110	<u>496</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>496</u>
<u>SOCIAL SECURITY ADMINISTRATION</u>			
<i>Passed through State Department of Education:</i>			
Social Security Disability Insurance	96.001	110	<u>1,140</u>
TOTAL SOCIAL SECURITY ADMINISTRATION			<u>1,140</u>

The accompanying notes are an integral part of this schedule.

AUBURN CITY BOARD OF EDUCATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - continued

SEPTEMBER 30, 2021

Federal Grantor/Pass-Through Grantor/Program Title	Federal Assistance Number	Pass- Through Grantor's Number	Amount of Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
<i>Passed through State Department of Education:</i>			
Child Nutrition Cluster:			
School Breakfast Program	10.553	110	168,465
National School Lunch Program	10.555	110	896,825
COVID-19 - Summer Food Services Program for Children	10.559	110	<u>2,872,480</u>
Subtotal Child Nutrition Cluster			3,937,770
Food Distribution Program	10.550	110	<u>169,290</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>4,107,060</u>
<u>U.S. DEPARTMENT OF THE TREASURY</u>			
<i>Passed through State Department of Education:</i>			
COVID-19 - Coronavirus Relief Fund (CRF)	21.019	110	1,144,029
<i>Passed through Lee County Commission:</i>			
COVID-19 - Coronavirus Relief Fund (CRF)	21.019	N/A	<u>383,400</u>
TOTAL U.S. DEPARTMENT OF THE TREASURY			<u>1,527,429</u>
<u>U.S. DEPARTMENT OF DEFENSE</u>			
<i>Direct Program:</i>			
ROTC Language and Culture Training Grants	12.357	N/A	<u>68,364</u>
TOTAL U.S. DEPARTMENT OF DEFENSE			<u>68,364</u>
TOTAL FEDERAL ASSISTANCE			<u>\$ 10,427,056</u>

The accompanying notes are an integral part of this schedule.

AUBURN CITY BOARD OF EDUCATION
NOTES TO THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS

SEPTEMBER 30, 2021

Note 1 - Scope of Audit Pursuant to the Uniform Guidance and the Single Audit Act of 1996

The Auburn City Board of Education is an agency of the State of Alabama. All significant operations of the Board are included in the scope of the Uniform Guidance and the Single Audit Act of 1996.

The U.S. Department of Education has been designated as the Board's cognizant agency for the Single Audit.

Note 2 - Fiscal Period Audited

Single Audit testing procedures were performed for program transactions occurring during the fiscal year ended September 30, 2021.

Note 3 - Summary of Significant Accounting Policies

Basis of presentation

The Schedule of Expenditures of Federal Awards has been prepared on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Federal grant revenues are recorded for financial reporting purposes when the Board has met the qualifications for the respective grants. Some programs may be funded jointly by State or local appropriations and Federal funds.

Indirect Cost Rate

The State Department of Education approves the Board's indirect cost rate annually, therefore, the Board has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

ADDITIONAL INFORMATION

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Members of the Auburn
City Board of Education
Auburn, Alabama

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Auburn City Board of Education (the "Board"), as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated March 11, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Board's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Machen McChesney, LLP

Auburn, Alabama
March 11, 2022

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Members of the Auburn
City Board of Education
Auburn, Alabama

Report on Compliance for Each Major Federal Program

We have audited the Auburn City Board of Education's (the "Board") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Auburn City Board of Education's major federal programs for the year ended September 30, 2021. The Auburn City Board of Education's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Auburn City Board of Education's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Board's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Board's compliance.

Opinion on Each Major Federal Program

In our opinion, the Auburn City Board of Education complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2021.

Report on Internal Control over Compliance

Management of the Board is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Board's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over

compliance. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Machen McChesney, LLP

Auburn, Alabama
March 11, 2022

AUBURN CITY BOARD OF EDUCATION
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED SEPTEMBER 30, 2021

Section I - Summary of Auditor's Results

Financial Statements

Type of opinion issued:	<u>Unmodified</u>	
Internal control over financial reporting:		
Material weakness(es) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Significant deficiencies identified that are not considered to be material weaknesses?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Noncompliance material to financial statements noted?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Significant deficiencies identified that are not considered to be material weaknesses?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Type of auditor's report issued on compliance for major programs:	<u>Unmodified</u>	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Identification of major programs:

U.S. Department of the Treasury; CFDA No. 21.019, COVID-19 - Coronavirus Relief Fund

U.S. Department of Education; CFDA No. 84.425, COVID-19 - Education Stabilization Fund

Dollar threshold used to distinguish between Type A and Type B programs	<u>\$ 750,000</u>
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Auditee qualified as low-risk auditee?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
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AUBURN CITY BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - continued
YEAR ENDED SEPTEMBER 30, 2021

Section II - Financial Statement Findings

Noncompliance

None noted which requires reporting.

Significant Deficiencies

None noted which requires reporting.

Section III - Federal Award Findings and Questioned Costs

Noncompliance

None noted which requires reporting.

Significant Deficiencies

None noted which requires reporting.

Questioned Costs

None noted which requires reporting.